UPDATED ECONOMIC EVALUATION OF THE PROPOSED SAN JOSE SPORTS ARENA

PREPARED FOR

THE CITY OF SAN JOSE

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PREPARED BY

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INTRODUCTION

BACKGROUND TO THIS ASSIGNMENT

The City of San Jose has long maintained an interest in development of a multi-purpose arena in order to accommodate within the community a variety of sports and entertainment events which require a large scale seated venue. Sports and entertainment promoters have long viewed the South Bay area as a large, rapidly growing, and highly desirable market which has remained essentially unserved because of the lack of appropriate, large scale facilities. The greater Bay Area is presently served by two arenas: the Oakland/Alameda County Coliseum Arena, and the Cow Palace just south of San Francisco in Daly City.

The City of San Jose first requested that Economics Research Associates (ERA) evaluate the potential for an arena in conjunction with development of the expanded San Jose Convention Center in 1981. While market support was demonstrated, the City opted to move forward with expansion of the convention center as the initial element and a cornerstone of the downtown redevelopment process.

Then in 1984, the City once again requested ERA (in association with John B. Dykstra & Associates) to assist in evaluating development potential for an arena to be developed on the site of the Santa Clara County Fairgrounds. This second assignment was initiated through the Mayor's Sports Facility Task Force and was structured as a review of and response to a specific design/build proposal prepared for a wood dome arena similar to that developed in Tacoma, Washington. The thrust of this assignment was a review of the consultant study prepared for the Fair Association and an independent testing of its market and financial conclusions as well as subsequent projections prepared by the Fair Association.

The results of ERA's effort indicated strong market support for arena development and financial operating results which produced an operating profit which was not sufficient to fully cover debt service for a high quality facility. While the design/build proposal projected a significantly lower construction cost, the ERA/JBD analysis, based on detailed investigations of costs to build comparable, high quality arenas in other communities and adjusted to reflect current costs in San Jose, indicated realistic construction costs of as much as $41 to $46 million, exclusive of site delivery costs and parking.

In May, 1985, the final report of the Sports Facility Task Force concluded that while market and financial performance of a San Jose arena would be strong, revenues during early years of operation are not likely to fully cover both cost of operations and debt service. Recognizing the potential necessity for a governmental entity to assume responsibility for some subsidy, the Task Force nevertheless concluded that an arena remained a workable and desirable goal and recommended that the City continue to explore opportunities for implementation.

In April, 1986, an agreement was reached between the City and Santa Clara County for a five year option the 127-acre bus yard at North Zanker Road and Highway 237 as a potential site for arena development. In addition, the Redevelopment Agency has identified two potential sites within downtown San Jose offering potential opportunities for locating an arena within the urban context of the City's core redevelopment area.

Given these events, interest in developing a major multi-purpose arena in San Jose clearly remains a high priority. Recognizing both the two year interval since the last analysis period, and the potential influence of some significant changes in the market during the interval, the City has requested ERA to prepare an updated analysis of market support and operating financial performance given the site opportunities at both the North Zanker/Highway 237 location and in downtown San Jose. This assignment reflects such changes in the market environment as the opening of the

Shoreline Amphitheater in Mountain View, the decision to move ahead with the events center at San Jose State, and the nominal addition of seating capacity at the Oakland Coliseum.

STRUCTURE AND CONTENTS OF THIS REPORT

This report is organized in six sections. Following this introductory section are:

- Section II: Summary of Findings. A brief recapitulation of the principal conclusions of the analysis.
- Section III: Updated Market Analysis. An investigation of recent changes in market influence; updated analysis of event volume and characteristics of relevant comparable facilities; demographic assessment of market availability relative to the two identified site locations; discussions of issues affecting facility marketability; and projections of utilization and attendance for a San Jose arena.
- Section IV: Projections of Operating Performance. This includes projected operating revenues and expenses under two scenarios (with and without NBA basketball).
- Section V: Anticipated Economic Impacts of Arena Development. This is intended as a qualitative discussion of the experience of other communities and conclusions as to relative types of long term benefit as a result of arena development.
- Section VI: Expected Impact of the 1986 Federal Tax Law on Potential Financing Strategies for Arena Development.

This economic analysis is one of four study efforts being undertaken concurrently under contract to the San Jose Redevelopment Agency on the subject of arena development. A traffic study is being prepared by Barton-Aschman Associates; the firms of Sink Combs Dethlefs and Coliseum Consultants are developing program criteria and conceptual master plans for

the potential development sites; and Mindigo Associates is preparing a preliminary environmental assessment of alternative sites. The results of these studies, together with a financing plan prepared by the Redevelopment Agency, will form the basis of further discussions regarding the feasibility of a San Jose arena.

Section II

SUMMARY OF FINDINGS

This section sets forth a brief summary of the principal findings of the updated economic analysis of the proposed San Jose arena. Substantiation and documentation supporting these findings is found in the body of the report in Sections III through VI.

MARKET SUPPORT FOR ARENA DEVELOPMENT

This analysis of market support for arena development in San Jose has been prepared to account for the two alternative areas described in Section III. It has also been structured to address two different utilization scenarios: both with and without a National Basketball Association franchise as a tenant of the facility.

The market area for the facility has been defined as the area extending from San Mateo on the peninsula and Fremont and Newark in the East Bay, south to Gilroy and Watsonville. It includes all of Santa Clara County, the southern portions of San Mateo and Alameda Counties, and all of Santa Cruz County. The market area for the facility is the same for each of the potential sites. However, a geographic and demographic analysis of the various submarket areas indicates a larger population base exists, and is expected to continue through 2005, which can be construed to enjoy greater proximity and ease of access to the downtown site areas over the North Zanker site.

A detailed analysis of market support indicates an acceptably strong level of use projected for the facility both with and without NBA basketball. This analysis has benefitted from a careful review of the recent operating experience of comparable facilities, extensive discussions with sports and entertainment event promoters, and the consultants' previous experience with public assembly facilities. The South Bay is viewed as a large, attractive, and highly qualified market for major sports and

entertainment events and one which has remained largely unserved in the absence of a large scale seated venue.

A summary of projected utilization expressed in number of event days and attendance is provided in Table II-1. As shown, 155 event days are projected for the first stabilized year under the "with NBA" scenario, attracting total annual attendance of more than 1.7 million. Without an NBA home team, a total of 120 event days is forecast, with a total attendance of slightly more than 1.3 million annually.

FINANCIAL OPERATING RESULTS

An operating analysis has been prepared which forecasts facility revenues and expenses for the first stabilized year of operations. The projected revenue levels by source are based on the detailed utilization data set forth in Section IV, to which average ticket price, per capita expenditures, and parking fees have been applied.

In addition, revenue from display advertising and lease of luxury suites has been included where appropriate. It has been assumed that in the absence of an NBA franchise in the arena, there will not be sufficient demand to support a luxury suite program. Under the "with NBA" scenario, display advertising is not shown to the facility but is assumed to flow to the team as has been increasingly common in NBA arenas in recent years. In fact, revenue to the facility from professional basketball home games has been determined based on an approximation of the recently negotiated lease between the Golden State Warriors and the Oakland Coliseum.

Annual operating results, showing revenues, expenses, and net operating income, are displayed in Table II-2 and II-3. As shown, revenues differ between the downtown and North Zanker locations due to lower parking revenue from a smaller inventory of on-site spaces at the downtown sites.

Table II-1

ANTICIPATED ARENA EVENT DAY
SUMMARY OF ACTIVITIES

Event Type	With NBA		Without NBA	
	Number of Event Days	Total Attendance	Number of Event Days	Total Attendance
Sports				
Professional	63	706,000	22	214,000
College	4	32,000	4	32,000
Other	14	98,000	14	98,000
Subtotal	81	836,000	40	344,000
Family Shows	40	494,000	40	494,000
Concerts	20	280,000	26	364,000
Other	14	136,000	14	136,000
TOTAL EVENTS	155	1,746,000	120	1,338,000

Source: Economics Research Associates

Table II-2

SUMMARY OF ANNUAL OPERATING RESULTS
(With NBA)

	Downtown	North Zanker
Revenues		
Rentals	$1,817.0	$1,817.0
Concessions	1,572.9	1,572.9
Parking	322.6	1,055.6
Advertising	0	0
Suite Rentals 1/	560.0	560.0
Total	$4,272.5	$5,005.5
Expenses		
Personnel	$ 900.0	$ 900.0
Utilities	450.0	450.0
Maintenance, Materials and Supplies	450.0	450.0
Insurance	200.0	200.0
Advertising and Promotion	150.0	150.0
Contract Services and Professional Fees	175.0	175.0
Other/Miscellaneous	50.0	50.0
Total	$2,375.0	$2,375.0
Net Operating Income	$1,897.5	$2,630.5

1/Assumes 20 suites at $40,000 annual lease fee including tickets, less 30 percent for cost of marketing, tickets, etc.

Source: Economics Research Associates

Table II-3

SUMMARY OF ANNUAL OPERATING RESULTS
(Without NBA)

	Downtown	North Zanker
Revenues		
Rentals	$1,796.9	$1,796.9
Concessions	1,303.1	1,303.1
Parking	345.6	1,034.1
Advertising	250.0	250.0
Suite Rentals	0	0
Total	$3,695.6	$4,384.1
Expenses		
Personnel	$ 825.0	$ 825.0
Utilities	400.0	400.0
Maintenance, Materials and Supplies	400.0	400.0
Insurance	200.0	200.0
Advertising and Promotion	150.0	150.0
Contract Services and Professional Fees	150.0	150.0
Other/Miscellaneous	50.0	50.0
Total	$2,175.0	$2,175.0
Net Operating Income	$1,520.6	$2,209.1

Source: Economics Research Associates

Net operating income available to service debt under the "with NBA" alternative totals roughly $1.9 million at a downtown site and $2.6 million at North Zanker. Without an NBA home team, net operating income after expenses drops to $1.5 million and $2.2 respectively.

INDICATIONS OF ECONOMIC IMPACT

It has not been within the scope of this assignment to provide a quantitative analysis of specific direct and induced impacts from arena development. Instead a review of the general experience of other cities (Dallas, Indianapolis, and Houston) having comparable, high quality arenas provides an order-of-magnitude sense of the kinds of impacts typically experienced from arena operation. This is augmented by a review of existing research conducted in the Seattle area following the initial years of operation of the Kingdome which at that time accommodated basketball and other arena-style events.

This review of experience in other cities has been interpreted to provide the following implications which may be useful in decisions regarding arena development in San Jose, particularly as it pertains to the site selection process.

- While arenas do generate community economic impacts as a result of ongoing operation, the levels of benefit are less significant than those from convention centers and stadiums (which generate greater out of town visitation and larger per capita expenditures).

- Expenditures by attendees and arena tenants can be expected to generate some local areas sales in retail, restaurant, and lodging facilities, as well as for transportation-related needs such as gas, parking, etc.). While these expenditure levels are likely to add only a nominal increment to demand from other sources, they do tend to occur at off-peak, less busy times.

- Based on experience in Dallas, lodging demand from arena operation would be drawn largely from visiting sports teams, bands, etc., rather than from arena attendees. If this experience were duplicated in San Jose, it is probable that this could amount to roughly 14,000 room-nights at various facilities.

- It has been the experience of other cities that new businesses are attracted to the surrounding areas, but that sports facilities do not in themselves catalyze changes in the character of an area in terms of the mix of businesses.

- The Kingdome survey indicated the degree to which sports facilities can promote greater resident familiarity with the surrounding area, resulting in return visits to patronize retail businesses.

- ERA's discussions with arena operators around the country indicate the likelihood of greater expenditure benefits occurring when arenas are developed in proximity to the more intensive development typical of downtown areas or major urban concentrations. Since the area around the downtown San Jose sites, offers existing opportunities for more intensive land uses, the economic benefits of arena development are likely to be greater, and more concentrated, if the arena were developed there rather than at the North Zanker site.

- Perhaps the most significant impacts resulting from arena development are those which are difficult to quantify, such as the facility's role in generating activity and vitality in the area, largely during evenings and weekends. This is particularly important in downtown areas, as these

are the two periods when activity from other sources is at its lowest level.

- Another important function served by arenas is their role in familiarizing residents with the vicinity as a result of attending events. Because arena events are likely to attract people to the area who do not necessarily visit for other reasons, the potential exists to expose new segments of the community to San Jose's emerging downtown core if the arena were developed there.

IMPLICATIONS OF THE 1986 TAX ACT ON FINANCING OPPORTUNITIES

The Tax Reform Act of 1986 promises significant changes in the future financing of public assembly facilities. One of the goals of federal tax reform was to eliminate indirect federal subsidies of public facilities which primarily benefit a private individual or company. The act specifically repealed the tax-exempt status of debt issues for sports facilities, convention centers, and selected other uses unless that facility can meet restrictive test criteria.

It is important to note that the provisions of the Tax Reform Act and Conference Agreement are clearly subject to interpretation by the Treasury Department. Until advance rulings and test cases are decided, the full implications of the act cannot be determined.

However, it is ERA's interpretation of changes regarding government bond financing that:

- o In order for a debt issue to be deemed tax-exempt, the act specifies test criteria are to be used for purposes of qualification.
  - The Private Business Use Test restricts the amount of proceeds of issue which can be used directly or indirectly by all private entities to 10 percent.
  - The unrestricted private use of proceeds cannot exceed five percent of the issue.
  - The Private Security in Payment Test restricts the amount of annual direct or indirect payments by a private entity to 10 percent of total debt service.
- o A contract for management of a facility would not be subject to the 10 percent of use and payment rules if:
  - The contract term does not exceed three years with a two year option;
  - At least 50 percent of the compensation is on a periodic fixed fee basis.
  - No amount of compensation is based on a share of net profits.

Other provisions and definitions which apply to arena financing can be met primarily through careful structuring and security of the debt issue. While the implications of the Tax Reform Act for arena development could be significant, the sweeping provisions in the act are subject to interpretation which renders a final determination currently impossible. All aspects of project financing, construction costs by element, management and concessionaire contracts, matching non tax-exempt funds and use agreements must be evaluated and pieced together into a financing and management scheme prior to determining if the project can be financed with tax exempt bonds.

Section III

UPDATED MARKET ANALYSIS

INTRODUCTION

The purpose of this section is to analyze and project the market support anticipated for the proposed San Jose Arena. To do so, it is necessary to recognize significant changes in the sports and entertainment industries; to explore the recent experience of comparable facilities; to ascertain the extent and characteristics of the available market and the competitive supply of facilities; and to quantify the level of usage likely to be generated by event promoters. From this analysis, a realistic projection of activity levels can then be constructed.

A few noteworthy changes in the industry are highlighted below before the remainder of this section presents the major findings of the research effort described in the preceding paragraph.

- Family shows such as the circus, ice shows and rodeos as well as professional boxing and wrestling are evidencing a surge in popularity and average attendance levels.
- Fewer concert groups are touring but many are appealing to a broader segment of the market and some of the more popular bands are playing longer runs.
- There has been a resurgence of interest in professional basketball and a corresponding proven ability among NBA teams to negotiate more lucrative deals with arenas, such that they receive a greater share of event revenues.
- Management of many sports and entertainment venues have made the transition from operating their facilities in a passive manner (i.e., collecting rents) to either entering into agreements with

event promoters which allow them to share in both the risks and profit margins or to act as promoters in their own right.

- Traditionally, facilities have provided food and beverage concessions for most events, with the primary exception of the circus. Now, other types of events such as some religious groups, ice shows, and concert groups, are beginning to bring in food and beverage items in addition to merchandise.

SURVEY OF COMPARABLE ARENAS

During the initial research phase of this study, ERA interviewed facility managers of 14 major arenas considered to be comparable in scale and function to the proposed San Jose Arena. The conversations addressed several pertinent concerns including:

- Arena Characteristics: seating and parking capacities, ice capabilities, presence of professional teams;
- Recent Operating Experience: event day volumes, market trends, operating performance, marketability of luxury suites;
- Economic Impacts: evidence or perceptions of benefits from arena activity in the community;
- Impressions of Proposed San Jose Development Sites: site preference considerations regarding the North Zanker and downtown locations in San Jose.

The following paragraphs focus on the characteristics of these arenas, their most recent event day volumes and the impressions of the facility managers regarding site-related issues for the San Jose Arena. Operating statements furnished by several of the facility managers and their experience in marketing luxury suites assisted in generating the summary of annual operating results anticipated for the San Jose Arena which is presented in Section IV. Comments received regarding economic impacts generated by arenas on the community are incorporated into the discussion in Section V.

Arena Characteristics

Table III-1 specifies the total and fixed seating capacities and corresponding number of parking spaces found both on-site and within walking distance of 14 large arenas located in the Western United States. It also indicates which arenas have ice capabilities and identifies the names of the professional sports franchises based in each facility.

Among the arenas surveyed, Portland's Memorial Coliseum Arena is the smallest in terms of seating capacity with 13,600 total seats, while the Reunion Arena in Dallas is the largest with a total of over 19,000 seats. Fixed seating ranges from a low of 65 percent of total seating at the Seattle Center Coliseum to a high of 100 percent at the temporary ARCO Arena in Sacramento. The average ratio between fixed and total seating was found to be just over 80 percent.

The number of parking spaces provided on-site and within a five to ten minute walk of the arena varies greatly with averages of 4,900 and 4,200 respectively. Market Square Arena in Indianapolis has only 1,300 on-site spaces but an additional 7,000 spaces nearby. The facility which appears to have the most limited parking facilities available to it both on and off-site is also the smallest in size: the Memorial Coliseum Arena in Portland. At the high end of the range is the Oakland Coliseum Arena with 10,000 on-site spaces and an additional 15,000 within walking distance. The Reunion Arena will soon offer the second largest number of parking spaces once the 5,000-space parking structure now under construction is completed. The resulting ratios of total seating capacity to on-site parking spaces range from a favorable 1.6 to 1 for the Oakland Coliseum Arena to 14.1 to 1 for the Market Square Arena.

Although only Market Square Arena and the Forum can claim to have their own professional hockey teams (NHL), all but one of the facilities have ice capabilities. This amenity is desirable since promoters of ice shows prefer to hold their performances in such venues. Professional

Table III-1

CHARACTERISTICS OF SELECTED LARGE U.S. ARENAS

City	Arena	Year Built	Seating Capacity: Total	Seating Capacity: Fixed	Parking Spaces: On-Site	Parking Spaces: Walking Distance[1]	Ice Rink	Home Teams
Dallas	Reunion Arena	1980	19,071	15,520	5,000[2]	6,000	Yes	NBA Mavericks, MISL Dallas Sidekicks
Denver	McNichols Sports Arena	1975	19,000	16,500	3,000	2,000	Yes	NBA Nuggets
Houston	The Summit	1975	17,094	15,030	6,500	0	Yes	NBA Rockets
Indianapolis	Market Square Arena	1974	18,154	15,900	1,300	7,000	Yes	NBA Pacers, NHL Checkers
Inglewood, CA	The Forum	1967	18,679	15,552	3,500	10,000	Yes	NBA Lakers, NHL Kings, MISL Lazers, LA Strings
Las Vegas	Thomas and Mack Center	1983	18,236	18,000	6,021	2,500	No	UNLV Rebels
Los Angeles	Sports Arena	1959	16,100	12,389	5,000	5,000	Yes	NBA Clippers
Oakland	Oakland Coliseum Arena	1966	15,891	11,285	10,000	15,000	Yes	NBA Warriors
Phoenix	Veterans Memorial Coliseum	1965	15,500	14,118	4,467	2,353	Yes	NBA Suns
Portland	Memorial Coliseum Arena	1960	13,600	9,300	2,200	500	Yes	NBA Trail Blazers
Sacramento	ARCO Arena (Temporary) (Permanent)	1985 U/C	10,333 18,000	10,333 N.A.	5,000	0	Yes	NBA Kings, Capitals (Tennis)
San Diego	Sports Arena	1967	15,051	10,995	4,500	N.A.	Yes	MISL Sockers, SDSU Aztecs
San Francisco	Cow Palace	1935	14,700	14,500	5,000	0	Yes	--
Seattle	Seattle Center Coliseum	1962	14,300	9,300	2,300	N.A.	Yes	NBA SuperSonics
	AVERAGE		16,670[3]	13,722[4]	4,913[5]	4,196[6]		

1/ Defined as no more than a 10-minute walk.
2/ 5,000 more parking spaces are currently under construction, to be completed in 1987.
3/ Includes the permanent ARCO Arena now under construction.
4/ Excludes the ARCO Arena since information is not available.
5/ Includes planned total of 10,000 spaces at the Reunion Arena in Dallas.
6/ Excludes San Diego Sports Arena and Seattle Center Coliseum since information is not available.

N.A. means Not Available.
U/C means Under Construction.

Source: Individual facility managers, Aud Arena Stadium 1987 International Guide, and Economics Research Associates

basketball teams (NBA) are based out of all but three of the arenas surveyed. The Thomas and Mack Center in Las Vegas keeps a busy winter events calendar with the University of Nevada's basketball games while the San Diego Sports Arena does so with both a professional indoor soccer team (MISL) and the San Diego State University's basketball team. The Cow Palace in San Francisco attracts the Grand National Rodeo each fall and spring and other professional sports exhibitions.

Event Day Volumes

The annual event day volumes for those facilities providing data are summarized in Table III-2. With the exception of the Veterans Memorial Coliseum in Phoenix and the Seattle Center Coliseum, they reflect the most recent year of activity. The total number of event days for each facility is broken down by type of event as follows:

- Sports (professional, college, and other),
- Family shows,
- Concerts,
- Consumer and trade shows, and
- Community shows and conventions.

This data has been assembled from facility event schedules and summarized by ERA according to these categories in order to provide information in a consistent format.

The San Diego Sports Arena reported the busiest events calendar with a total of 355 event days. However, deducting its 225 days of swap meets it showed an annual total of 129 event days. The Veterans Memorial Coliseum in Phoenix experienced the lowest number of event days due largely to the fact that fairground events and activities were excluded from the total. An average of 150 event days was found among the facilities when swap meets were omitted from the computation. This total was surpassed by the Reunion Arena, Market Square Arena, the Los Angeles Sports Arena, the Seattle Center Coliseum and, according to estimates, the Oakland Coliseum Arena.

Table III-2

ARENA EVENT DAY SUMMARY OF ACTIVITIES IN SELECTED U.S. ARENAS
(Event Days)

City	Arena	Year of Activity	Sports[1] Professional	Sports[1] College	Sports[1] Other	Family Shows[2]	Concerts[3]	Consumer/ Trade Shows[4]	Community Show/ Convention[5]	Total
Dallas	Reunion Arena	FY86	-----100 Combined ----			21	47	---8 Combined-------		176
Denver	McNichols Arena	1986	52	0	3	18	26[6]	0	13	112
Indianapolis	Market Square Arena	FY86	92[7]	5	17	30	36	0	6	186
Las Vegas	Thomas & Mack Center	1986	2	23	2	26	22	26	3	104
Los Angeles	Sports Arena	1986	53	14	8	34	4	34	43	190
Phoenix	Veterans Memorial Coliseum	1985	56	0	0	33	8	0	2	99[8]
Sacramento	ARCO Arena	1986	60	2	34	18	15	3	18	150
San Diego	Sports Arena	1986	39	15	4	29	34	8	226[9]	355
San Francisco	Cow Palace	1986	10	0	7	53	22	26	25	143[10]
Seattle	Seattle Center Coliseum	1985	34[11]	0	5	21	16	59	29	164
Oakland	Oakland Coliseum Arena (Estimate)	1986	43	NA	11	32	29	30	9	200±

NA means Not Available.

1/ Professional basketball, hockey, indoor soccer, boxing and wrestling; all college athletics; and all other sports (except rodeos and motorcyle sports).
2/ All family interest shows including circus, ice shows, tractor pulls, rodeo, motorcyle sports, demonstrations, travelling entertainment, and other entertainment normally attended by a whole family.
3/ Any music concerts by individual or groups stars.
4/ Exhibitions and other shows classified as "flat shows" such as RV, auto and boat shows, ski and stereo sales, and other consumer product shows.
5/ Shows and meetings normally supported by the community such as religious meetings, home and decorating and garden shows, dog and cat shows, professional exams, swap meets, dances and festivals, and school graduations.
6/ Excludes raindates from Red Rocks Amphitheatre.
7/ Includes both NBA and NHL home teams.
8/ Limited to major non-fair events and activities.
9/ Includes 225 swap meets.
10/ Limited to arena events (excludes 31 consumer/trade shows, 7 community shows and 1 sports event held in other on-site facilities).
11/ 1985-86 is the first season the Seattle SuperSonics (NBA) played in the Coliseum, because of that only half a season (14 games, 3 exhibitions and 15 preliminary games) is reflected in the 1985 events schedule.

Source: Economics Research Associates

With both an NBA and NHL franchise team, Market Square Arena boasts the largest number of event days allocated to sports. The ARCO Arena in Sacramento runs second. The Cow Palace, without any professional franchise teams, held the least number of sports-related event days in 1986. It should be noted that although the Junior and Grand National Rodeos run for two weeks each spring and fall at the Cow Palace these are classified as family shows rather than sporting events. It is primarily for this reason that the Cow Palace claimed the most event days for family shows in 1986.

More concerts were held in the Reunion Arena in Dallas than in any other venue surveyed. This facility is considered to be ideal among promoters in that industry, according to ERA's promoter interviews. The fewest number of concerts was reported by the Los Angeles Sports Arena which must compete with numerous market area venues for such events, including the Forum and the Long Beach Arena.

While large consumer and trade shows (classified as "flat shows") are held in several of the facilities surveyed, in the case of projections for a San Jose arena they will be directed to other San Jose area facilities which better serve their needs. On the other hand, shows and meetings not appropriate to the San Jose Convention Center and normally supported by the community could be accommodated in the proposed arena.

Impressions of Proposed Development Sites in San Jose

The facility managers were provided with descriptions of the North Zanker and downtown arena sites in terms of:

- Anticipated parking capacities relative to the projected seating capacity of the arena,
- Accessibility to major segments of the market, and
- Extent of local support and desire to create a positive downtown image.

They were then asked to indicate which location seemed more desirable in terms of its ability to attract both spectators and events and generate economic spinoffs. Among the seven facility managers who provided input, three preferred the downtown location.

The primary reasons why an arena in downtown San Jose was favored were that it would:

- o Bring people downtown,
- o Benefit from good highway access,
- o Be accessible by several modes of transportation including automobile, train, light rail transit (in the future) and bus, and
- o Be more attractive to a professional franchise team.

The four remaining facility managers who recommended development at the North Zanker site cited the following favorable conditions likely to be found there:

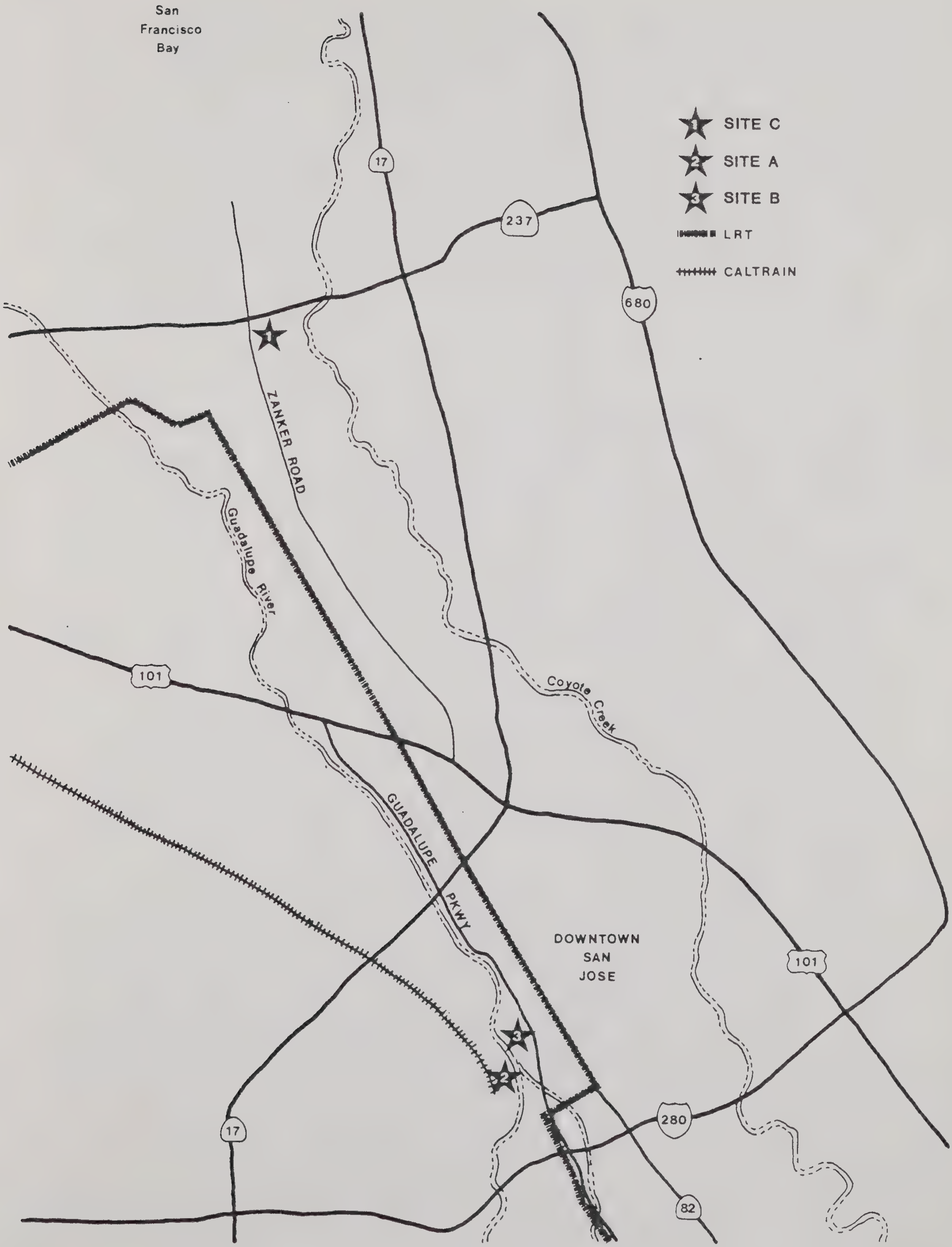
- o Sufficient on-site parking to accommodate all spectators during each event and provide a major source of revenue,
- o Ease of security as the site is removed from adjacent development, and
- o Good highway access.

OVERVIEW OF SAN JOSE MARKET CHARACTERISTICS

Proposed Development Sites for the San Jose Arena

Earlier in this report it is noted that three potential sites in San Jose are now under consideration for proposed arena development. Their relative locations are disclosed in Figure 1. The North Zanker site is situated in the southeast corner of the intersection of North Zanker Road and Highway 237.

FIGURE 1
PROPOSED DEVELOPMENT SITES



Two additional sites have been identified within the general downtown area. They are referred to in this report as the Sites A and B. Site A the larger of the two, is located along the northern side of Santa Clara Street just two blocks west of Highway 87 which is now under construction. The existing Caltrain station and the proposed Light Rail Transit terminal are in the block immediately to the south. Site B directly abuts the Julian Street off-ramp which exits to the west off the new Highway 87. It is somewhat more removed from the downtown commercial core than Site A, although the close proximity of these two downtown sites affords them indistinguishable market areas.

Definition of Market Area

The market for the proposed San Jose Arena encompasses a relatively large geographic area. Since access to each of the three potential arena sites is possible form several major highways, the overall market area is effectively the same for both the North Zanker and downtown locations. However, a slight bias may exist for one location over the other among a few submarket areas based on access and proximity. This is not to say that this bias has been construed to affect attendance projections but rather to indicate population proximity relative to the two locations.

As Figure 2 reveals, the overall market area extends from San Mateo on the Peninsula and Fremont in the East Bay south to Gilroy in Southern Santa Clara County and Watsonville in Southern Santa Cruz County. It includes all of Santa Clara County and Santa Cruz County as well as the southern portions of Alameda County and San Mateo County. Submarket areas judged to enjoy greater proximity and ease of access to the North Zanker site versus the downtown locations include San Jose east of Highway 101 and Milpitas in Santa Clara County, and Fremont and Newark in Southern Alameda County. On the other hand, an arena located in downtown San Jose is likely to be more easily accessible to residents of San Jose west of Highway 101 and southern Santa Clara County. Both locations should be equally convenient to residents of the remaining submarket areas.

FIGURE 2

SAN JOSE ARENA MARKET AREA

Market Characteristics

The San Jose market area is highly attractive for arena development and operation. Its strong population base and favorable demographic profile distinguish its likelihood for strong support of sports and entertainment events held in a large, high quality arena. The following paragraphs discuss these market area characteristics based on data displayed in Tables III-3 through III-6.

Table III-3 presents the total population and its projected growth over the next 20 years by submarket area. As demonstrated, the current population for the entire market area exceeds 2.2 million with a much larger base found in those areas located more conveniently to the downtown sites. Overall growth is expected to be quite strong over the next ten years. Although this is particularly true within the submarket areas proximate to the North Zanker site, the combined population of areas convenient to downtown is already so great that it will continue to remain significantly larger over this time period.

As the average household size continues its declining trend throughout the entire market area, the number of households will increase over the next 20 years at rates greater than those for population. With households currently averaging 2.72 persons in size and expected to drop to 2.51 by 2005, the total number of households in the market area will increase from nearly 800,000 in 1985 to over one million by 2005. These trends are shown in Tables III-4 and III-5. The combined effect of a larger population and a smaller average household size among downtown bias areas results in a greater number of households more accessible to the downtown arena sites over the North Zanker site during the entire time period examined. However, the larger average household size among North Zanker bias areas is a positive factor for family-oriented events which form a significant use component for arena facilities.

Table III-6 emphasizes the notable attractiveness of the market area by virtue of the income profile of its population. Mean household income in

Table III-3

TOTAL POPULATION
San Jose Arena Market Area

Location	Arena Site Bias	Total Population (000s) 1985	1995	2005	Percent Change 85-95	95-05
SANTA CLARA COUNTY						
City of San Jose	--	858.4	951.4	985.8	10.8%	3.6%
- East of Hwy 101	No. Zanker	237.5	284.8	290.0	19.9	2.1
- West of Hwy 101	Downtown	620.9	666.6	695.0	7.4	4.3
City of Milpitas	No. Zanker	42.0	53.3	57.6	26.9	8.1
North County[1/]	No bias	372.6	399.7	406.8	7.3	1.8
South County[2/]	Downtown	204.4	232.7	264.3	13.9	13.6
Remainder[3/]	No bias	12.5	13.1	13.7	4.8	4.6
Subtotal		1,489.8	1,650.2	1,728.2	10.8%	4.7%
SO. ALAMEDA COUNTY[4/]	No. Zanker	183.0	222.7	243.1	21.7%	9.2%
SO. SAN MATEO COUNTY[5/]	No bias	327.5	342.4	355.5	4.5%	3.8%
SANTA CRUZ COUNTY	No bias	205.0	242.6	279.2	18.3%	15.1%
MARKET AREA TOTAL		2,205.3	2,457.9	2,606.0	11.5%	6.0%
- Site Bias Subtotal	No. Zanker	462.5	560.8	591.6	21.3%	5.5%
- Site Bias Subtotal	Downtown	825.2	899.3	959.2	9.0%	6.7%

Note: Errors due to rounding.

1/Includes Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
2/Includes Campbell, Cupertino, Gilroy, Los Gatos, Monte Sereno, Morgan Hill and Saratoga.
3/Includes County areas outside of spheres of influence of above-named communities.
4/Includes Fremont and Newark.
5/Includes Atherton, Belmont, East Palo Alto, Foster City, Half Moon Bay, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, Woodside and County areas outside of spheres of influence of above-named communities.

Source: Association of Bay Area Governments, Association of Monterey Bay Area Governments and Economics Research Associates

Table III-4

HOUSEHOLD SIZE
San Jose Arena Market Area

Location	Arena Site Bias	Persons per Household[1] 1985	1995	2005	Percent Change 85-95	95-05
SANTA CLARA COUNTY						
City of San Jose	--	2.91	2.76	2.62	-5.1%	-5.2%
- East of Highway 101	No. Zanker	3.32	3.12	2.94	-6.1	-5.5
- West of Highway 101	Downtown	2.78	2.63	2.50	-5.3	-5.0
City of Milpitas	No. Zanker	3.23	3.06	2.91	-5.3	-4.9
North County[2]	No bias	2.42	2.34	2.26	-3.2	-3.7
South County[3]	Downtown	2.79	2.71	2.64	-2.9	-2.6
Remainder[4]	No bias	3.00	2.88	2.74	-4.0	-4.9
Subtotal		2.77	2.65	2.54	-4.1%	-4.3%
SOUTH ALAMEDA COUNTY[5]	No. Zanker	3.00	2.88	2.81	-4.0%	-2.6%
SOUTH SAN MATEO COUNTY[6]	No bias	2.48	2.34	2.27	-5.7%	-2.8%
SANTA CRUZ COUNTY	No bias	2.55	2.49	2.44	-2.3%	-2.0%
MARKET AREA TOTAL		2.72	2.60	2.51	-4.1%	-3.7%
- Site Bias Subtotal	No. Zanker	3.18	3.01	2.88	-5.2%	-4.3%
- Site Bias Subtotal	Downtown	2.78	2.65	2.54	-4.7%	-4.3%

Note: Errors due to rounding.

1/Source: Association of Bay Area Governments, except Economics Research Associates for Santa Cruz County.
2/Includes Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
3/Includes Campbell, Cupertino, Gilroy, Los Gatos, Monte Sereno, Morgan Hill and Saratoga.
4/Includes County areas outside of spheres of influence of above-named communities.
5/Includes Fremont and Newark.
6/Includes Atherton, Belmont, East Palo Alto, Foster City, Half Moon Bay, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, Woodside and County areas outside of spheres of influence of above-named communities.

Source: Association of Bay Area Governments, Association of Monterey Bay Area Governments and Economics Research Associates

Table III-5

NUMBER OF HOUSEHOLDS
San Jose Arena Market Area

Location	Arena Site Bias	Number of Households (000s)[1]			Percent Change	
		1985	1995	2005	85-95	95-05
SANTA CLARA COUNTY						
City of San Jose	--	290.5	339.3	370.3	16.8%	9.1%
- East of Hwy 101	No. Zanker	71.0	90.7	98.0	27.7	8.0
- West of Hwy 101	Downtown	219.5	248.6	272.4	13.3	9.5
City of Milpitas	No. Zanker	12.4	16.8	19.1	35.5	13.7
North County[2]	No bias	148.3	164.5	173.2	10.9	5.3
South County[3]	Downtown	72.1	84.6	98.7	17.3	16.6
Remainder[4]	No bias	4.0	4.4	4.9	10.3	10.2
Subtotal		527.3	609.6	666.2	15.6%	9.3%
SO. ALAMEDA COUNTY[5]	No. Zanker	60.3	76.6	85.8	27.0%	12.0%
SO. SAN MATEO COUNTY[6]	No bias	130.2	144.4	154.2	10.9%	6.8%
SANTA CRUZ COUNTY	No bias	77.9	94.5	111.6	21.3%	18.1%
MARKET AREA TOTAL		795.7	925.0	1,017.7	16.3%	10.0%
- Site Bias Subtotal	No. Zanker	143.7	184.1	202.8	28.1%	10.2%
- Site Bias Subtotal	Downtown	291.6	333.2	371.0	14.3%	11.4%

Note: Errors due to rounding.

[1] Source: Association of Bay Area Governments, except Economics Research Associates for Santa Cruz County.
[2] Includes Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
[3] Includes Campbell, Cupertino, Gilroy, Los Gatos, Monte Sereno, Morgan Hill and Saratoga.
[4] Includes County areas outside of spheres of influence of above-named communities.
[5] Includes Fremont and Newark.
[6] Includes Atherton, Belmont, East Palo Alto, Foster City, Half Moon Bay, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, Woodside and County areas outside of spheres of influence of above-named communities.

Source: Association of Bay Area Governments, Association of Monterey Bay Area Governments and Economics Research Associates

Table III-6

MEAN HOUSEHOLD INCOME ($ 1979)
San Jose Arena Market Area

Location	Arena Site Bias	Mean Household Income ($ 1979)[1/] 1985	1995	2005	Percent Change 85-95	Percent Change 95-05
SANTA CLARA COUNTY						
City of San Jose	--	$29,112	$34,236	$36,979	17.6%	8.0%
- East of Highway 101	No. Zanker	29,582	35,284	37,973	19.3	7.6
- West of Highway 101	Downtown	28,959	33,854	36,621	16.9	8.2
City of Milpitas	No. Zanker	33,900	39,700	44,700	17.1	12.6
North County[2/]	No bias	35,120	40,456	43,335	15.2	7.1
South County[3/]	Downtown	40,294	46,497	49,604	15.4	6.7
Remainder[4/]	No bias	36,900	46,400	47,800	25.7	3.0
Subtotal		$32,502	$37,854	$40,802	16.5%	7.8%
SOUTH ALAMEDA COUNTY[5/]	No. Zanker	$31,600	$33,961	$36,871	7.5%	8.6%
SOUTH SAN MATEO COUNTY[6/]	No bias	$35,129	$38,509	$42,191	9.6%	9.6%
SANTA CRUZ COUNTY	No bias	$19,000	$22,230	$24,000	17.0%	8.0%
MARKET AREA TOTAL		$31,542	$36,038	$38,839	14.3%	7.8% [7/]
- Site Bias Subtotal	N. Zanker	$30,801	$35,137	$38,141	14.1%	8.5%
- Site Bias Subtotal	Downtown	$31,762	$37,063	$40,073	16.7%	8.1%

Note: Errors due to rounding.

[1/] Source: Association of Bay Area Governments, except Economics Research Associates for Santa Cruz County.
[2/] Includes Los Altos, Los Altos Hills, Mountain View, Palo Alto, Santa Clara and Sunnyvale.
[3/] Includes Campbell, Cupertino, Gilroy, Los Gatos, Monte Sereno, Morgan Hill and Saratoga.
[4/] Includes County areas outside of spheres of influence of above-named communities.
[5/] Includes Fremont and Newark.
[6/] Includes Atherton, Belmont, East Palo Alto, Foster City, Half Moon Bay, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, Woodside and County areas outside of spheres of influence of above-named communities.
[7/] While the rates of growth shown by submarket area (i.e., city, county, etc.) are based upon the total number of households within each submarket area, the rate of growth for the entire market area is based upon the total number of households within the entire market area. Hence, when the individual submarket rates of growth are weighted against the number of households within the entire market area, a lower rate of growth results for the entire market area than for each of the submarket areas.

Source: Association of Bay Area Governments, Association of Monterey Bay Area Governments and Economics Research Associates

1979 dollars averaged $31,500 in 1985 and is expected to increase to $38,800 by 2005 with the largest gains anticipated during the first ten years. Submarket areas convenient to a downtown site will maintain slightly higher mean household incomes. Since greater disposable income indicates strong propensity to support recreation and entertainment opportunities, the more affluent profile of the downtown site bias areas can be construed as a positive indicator for likely support of a multi-purpose arena which offers high quality facilities and programs.

RECENT CHANGES IN THE MARKET ENVIRONMENT

As noted briefly in the introductory section to this report, there have been several significant changes pertaining to the supply of public assembly facilities which influence market support for an arena in San Jose. These are the development of the Shoreline Amphitheater in nearby Mountain View, and the decision to proceed with construction of a campus events center at San Jose State. In addition, two other factors have constrained market projection in this analysis in terms of event day volume. One is the change in sites from the Santa Clara County Fairgrounds to the three potential sites described above. A second is the assumption that flat shows (either trade or consumer shows) will be most appropriately accommodated at the expanded San Jose Convention Center now under construction. Each factor is discussed briefly below. In addition, it should be noted that the Oakland Coliseum Arena expanded its seating capacity by approximately 1,700 seats, bringing its total for basketball to 15,025 and for concerts to just over 16,000.

Shoreline Amphitheater

The Shoreline Amphitheater opened in mid-1986 at a site within Mountain View's North Bayshore area adjacent to Shoreline Regional Park. Developed by Bill Graham Productions on a site leased from the City of Mountain View, the open air facility initially provided a seating capacity for concerts of up to 15,000 in a combination of reserved and lawn seating.

A recent action of the Mountain View City Council provided approval to increase the seating capacity to 20,000 on a trial basis for three events pending assessments of traffic and parking impacts, with the additional 5,000 attendees occupying lawn seating area.

The introduction of a new venue by the area's principal concert promoter would normally be expected to severely reduce the number of concert events at a San Jose arena. However, ERA's discussions with representatives of the Graham organization indicate a clear market differentiation among touring acts. Individual performers or bands are considered by the promoter to be either indoor or outdoor events, not both. As a result, the introduction of a South Bay amphitheater has not markedly precluded an acceptable level of concert volume available to the arena. In fact, the Graham organization indicates strong interest in using a San Jose arena, indicating a schedule of approximately 20 concerts per year, although this does represent some reduction in the number of event days projected in earlier analyses. There was a clear preference indicated for a site which provides an ample inventory of on-site parking.

San Jose State University Events Center

Since the completion of ERA's 1984/1985 arena study, San Jose State University has reversed an earlier electoral decision and has begun construction on an events center which will open on campus in early 1989. Smaller than the facility originally proposed, the center will seat up to 5,500 for concerts and 4,800 for basketball. It will serve as a venue for accommodating university basketball games, entertainment and special events, as well as the student community's recreational needs. The Center has been designed as a high quality performance space with sophisticated technical capabilities. It can be expected to accommodate all but the two or three largest-drawing home basketball games as well as those concert and entertainment events which are appropriate to a venue of its size. This includes the smaller concert events which would otherwise have been captured

by the San Jose arena, provided that it offered a smaller, curtained-down configuration.

Other Factors

In addition to the introduction of the two new facilities noted above, two additional factors have acted to reduce the number of event days previously forecast for the San Jose arena. The most significant has been the change in site from the previous location at the Santa Clara County Fairgrounds. Under the previous Fairgrounds scenario, a number of events were included in the projected events schedule for the arena which typically occur in existing facilities at the Fairgrounds. The other has been the assumption that flat shows such as trade and consumer shows, for which some event days had been forecast, would be more appropriately accommodated at the new San Jose Convention Center.

MARKET PROJECTIONS

The projection of market support anticipated for the proposed San Jose Arena is presented below. It draws upon several sources of information. These include the event day schedules supplied by facility managers of comparable arenas, the market area characteristics, the supply of existing facilities in the market area, and input from interviews with twenty event promoters across the country. While the principal findings from the first three sources have been summarized earlier in this section, the likely nature of use anticipated for the San Jose Arena among event promoters is discussed briefly below.

Two projections are prepared reflecting scenarios both with and without a professional basketball franchise. Each scenario projects arena use by type of event and total attendance levels and represents the first stabilized year of operation (typically year four).

Likely Nature of Use Among Event Promoters

ERA approached promoters representing the full spectrum of events typically held in an indoor sports and entertainment venue. As in the discussions with facility managers they were provided with descriptions of the alternative site locations for the San Jose Arena and asked to assess which location would best suit their needs. They were then requested to indicate their interest in booking future events in the new facility. If the promoters replied favorably, as was the case with the majority, they then specified whether this facility was likely to supplement other venues already used in the market area or replace them. In addition, several of the promoters recommended arena design characteristics which would facilitate their ability to hold events there and disclosed typical rental rate structures paid at existing facilities.

Among the seventeen promoters who provided input on their preferred site location for the San Jose Arena, eleven favored the North Zanker site, three indicated no preference and the remaining two considered the downtown location more appropriate. The reasons mentioned in support of the North Zanker site in rank order by frequency are:

- Provision of sufficient and secure on-site parking;
- Security available with a self-contained and more isolated site;
- Sufficient staging and docking areas;
- Trend of new facilities to locate in suburban areas;
- Open air quality, and
- Historically poor image of downtown San Jose.

The availability of on-site parking is clearly a concern among these promoters. Those familiar with San Jose explained that although several transit opportunities would serve the downtown site, the market area population is largely auto-dependent and traffic congestion is high in the downtown area when many events commence their evening performances. On the other hand, as the two promoters in favor of the downtown site pointed out,

spectators would be able to congregate prior to showtime in the downtown area. They could also arrive on special busses and trains designated especially for event spectators.

It is important to note that while these discussions provided indications of site preferences, all promoters can be expected to use a San Jose arena regardless of site.

Table III-7 reveals the likely nature of use of a new arena by the event promoters. Nearly 70 percent expressed a strong interest in booking events here, the majority of whom would do so in addition to continuing their shows in existing market area facilities. Many of these promoters stated that a large segment of their admissions at events held in local venues resides in the San Jose area. Others would like to move their larger events out of existing area facilities which they feel are limited in seating capacity. Among the six promoters who were not interested in using the new facility, several believed it would either be too large and, hence, price prohibitive or too small (i.e., for flat shows). Athletic departments of three local universities expected their own on-campus facilities to meet their needs for most events.

Anticipated Arena Use

The projected arena event day summary of activities is shown in Table III-8. It differentiates the anticipated number of event days and total attendance figures by both event type and presence of a professional basketball franchise (NBA). The event types include sports (professional, college and other), family shows, concerts and other events. Consumer and trade shows as well as events related to fairgrounds activity are excluded as they are best accommodated in other San Jose venues. The presence of an NBA team greatly augments the total number of event days and attendance figures. Not surprisingly, it also increases the percentage of event days and attendance volume generated from sports to levels higher than any other type of event. In the "with NBA" scenario, 81 of the 155 total event days projected are sports-related. By comparison, that figure is halved in the

Table III-7

LIKELY NATURE OF USE OF PROPOSED SAN JOSE ARENA
BY EVENT PROMOTERS

Nature of Use	Total Respondents	Primary Reasons
Use proposed San Jose Arena in addition to existing market area facility	11	Large percent of existing spectators from San Jose area; more suitable for large events than existing facilities used.
Use proposed San Jose Arena and discontinue use of existing market area facility	2	Existing facilities in San Jose area are too small.
Not use proposed San Jose Arena and continue to use existing market area facility	6	San Jose Arena would be too large and expensive to rent or too small (for flat shows); prefer to keep college events on campus; not an ideal location for event.
TOTAL	19	

Source: Event promoters and Economics Research Associates

Table III-8

ANTICIPATED ARENA EVENT DAY
SUMMARY OF ACTIVITIES

Event Type	With NBA		Without NBA	
	Number of Event Days	Total Attendance	Number of Event Days	Total Attendance
Sports				
Professional	63	706,000	22	214,000
College	4	32,000	4	32,000
Other	14	98,000	14	98,000
Subtotal	81	836,000	40	344,000
Family Shows	40	494,000	40	494,000
Concerts	20	280,000	26	364,000
Other	14	136,000	14	136,000
TOTAL EVENTS	155	1,746,000	120	1,338,000

Source: Economics Research Associates

"without NBA" scenario, which would consist of 120 event days. Detail as to specific events within the broader categories is provided in the next section in Tables IV-1 and IV-2.

Family shows are also expected to be popular events in the new arena. The number remains consistent regardless of the presence of an NBA franchise as they are typically held throughout the year. Concerts will fill a number of event days, although fewer are projected for the "with NBA" scenario, where scheduling conflicts are more likely during the winter months.

This projected activity level is consistent with the experience of other successful free-standing arenas and represents realistic and achievable usage. It also accounts for the competitive influence of other market area venues and the level of interest expressed by event promoters.

Section IV

ANALYSIS OF OPERATIONS

It is the purpose of this section to project expected financial operating performance for a San Jose arena to be developed at a downtown site or at the North Zanker location. This performance is based on utilization and attendance levels forecast in Section III and on a series of assumptions regarding operating policies and rate structure which are discussed below. Annual operating revenues and expenses are expressed in constant 1987 dollars. Operating cost increases due to inflation are assumed to be offset by equivalent upward adjustments in rental rates and other revenue items, although marginal year-to-year fluctuations can be expected. The operating projections are presented for the first stabilized year of operation, typically year four for facilities of this type.

Operating results are shown separately for a facility located at a downtown San Jose site and for the North Zanker site. While the utilization levels were shown in the previous section to be the same regardless of site, revenues from parking will differ because of the differences in parking inventory per site. For purposes of this analysis is has been assumed that there will be 1,200 on site parking spaces provided at the downtown site and approximately 6,000 at the North Zanker location.

In addition, for each of the two sites, financial results are indicated for two different scenarios reflecting operation with and without a National Basketball Association franchise. This has been necessary because while there is presently no franchise located in the south bay, given the area's strong market characteristics, there is reasonable likelihood that a team could be attracted in the future. In order to provide a realistic reflection of the operating return to the facility from a resident team, this analysis utilizes factors based on our understanding of the recently negotiated contract between the Golden State Warriors and the Oakland Coliseum in deriving likely levels of revenue to the facility.

This approach reflects recent experience, largely during the last couple of years, in which NBA franchise teams have negotiated lease agreements which allocate increased shares of parking concession and advertising revenues to the teams, as well as significantly discounted rental rates for building use.

SOURCES OF REVENUE

Arenas generate event revenues from three principal sources:

- o Building rentals, based on either a percentage of gross admissions or a flat daily rate, whichever is greater;
- o Concession income from food, beverage, and merchandise sales at the facility;
- o Parking revenues from on-site parking for events held at the arena.

Additional potential contributions to revenue come from the lease of luxury suites and from display advertising in arena and concourse areas. Assumptions regarding rates and policies which affect each of these revenue streams are described below. Each of these factors reflects consideration of realistic, attainable rates, accounts for the need to be competitive in the Bay Area marketplace, and benefits from the operating experience of relevant existing facilities.

This analysis also assumes construction of a well-designed, high quality arena which provides for an attractive, comfortable audience experience and well-conceived back-of-the-house and support facilities. Equally as important is the assumption implicit in this analysis of professional, experienced, efficient and cost-conscious management and vigorous, energetic promotion which is based on maximizing revenue-producing usage. This latter point is particularly critical in an era where more buildings are operating and competing for a fluctuating and often scarce supply of quality events. In recent years this has increasingly made it

necessary that buildings promote and co-promote events, rather than acting passively in merely accommodating rental of the facility.

Arena Rentals

Published rental rates for use of arena facilities are typically structured as a flat daily fee against a percentage of gross admission receipts, whichever is greater. While these represent standard rates, actual operating experience indicates that these are optimum levels which are not uniformly applied. In practice, rental for any event is effectively negotiated and agreed upon by the event promoter and the building operator. ERA's interviews with arena management during the course of this assignment indicate a wide range of experience in achieving published rates versus the need to negotiate reduced rents in the face of substantial competition among venues and increasing pressure from promoters who are trying to minimize costs.

The range of current rates varies as well among major multi-purpose arenas. Flat daily rates range from a low of $3,000 to a high of $10,000 per day, and percentage rents vary from a low of 10 percent to a high of 21 percent. Given this experience, and the current rates at the Cow Palace and Oakland Coliseum at 12 percent, a standard rental rate of $4,000 against 15 percent of gross admissions is used in this analysis, with the assumption that the initial year of operation is 1991. Exceptions are noted in the footnotes to Tables IV-1 and IV-2 appearing later in this section as they apply to deviations from standard rental rates for NBA basketball, circus/ice shows, concerts, and other events which are known to negotiate lower rates.

Concessions

The operating structure and revenue share for concessions differs from facility to facility. It appears most common to contract concession operation to an experienced concessionaire rather than to operate it in-house. Given this approach, the facility receives a percentage of gross

sales, with the concessionaire responsible for the cost of goods and vendor labor. In some instances early commitment of such a contract can provide some opportunities for up-front contribution from the concessionaire in financing the construction of concession facilities. When this is done then it is common for the concessionaire to receive a larger percentage during the early years of the contract as a return on his investment in the facility.

In practice the arena's share of concession revenue is typically higher for food and beverage sales than for merchandise sales. While a range of from 35 to 42 percent of gross is common on food and beverage, arenas typically receive from five to 15 percent for merchandise for most events. A notable exception is Ringling Brothers' family shows where the event brings in and controls all merchandise sales, giving no share to the facility, and returning no more than 30 percent on food and beverage to the building. It is also often the case that sports franchises receive the profit from merchandise sold at home games, and, as a result, merchandise sales often become a revenue source to facility revenue primarily for concert events.

Recognizing these practices as the experience of other arenas, this analysis assumes a revenue share of 40 percent of food and beverage sales and 10 percent for merchandise for all events except NBA, circus, and ice shows.

Parking

While revenue from all other sources is shown to be the same for either a downtown site or the North Zanker arena location, revenue from parking will differ because of substantially different on-site parking inventories. It is assumed that a total of 1,200 spaces are provided at a downtown site and approximately 6,000 at North Zanker.

A parking fee of $3.00 per car is assumed in this analysis, as well as an occupancy per vehicle of 2.5 persons for all events except family

shows which are typically at 3.5 persons. It is assumed that 90 percent of attendees arrive by auto at the North Zanker site; for a downtown site it is assumed that the first 1,200 cars are captured on site regardless of overall transit mode split. In allocating income from parking, it is assumed that 80 percent of parking revenue returns to the facility as income, except for NBA events where the team shares in parking revenue as noted in the appendix.

Lease of Luxury Suites

Lease of private suites or boxes which offer preferred seating opportunities have been successful in various arena markets. It is most common for such a product to be successfully marketed in a facility which houses at least one professional sports franchise. The two most notable exceptions to this have been the Rosemont Horizon in suburban Chicago and the Thomas & Mack arena in Las Vegas. However, in both cases these arenas are home court to two of the nation's top ranking college basketball teams--DePaul University and the University of Nevada/Las Vegas.

In the case of a San Jose arena, this analysis has assumed the construction and marketing of a program of 20 suites only in the scenario including NBA. It is recommended that provision be made in the design for the facility which will allow for the addition of suites if a franchise is committed to playing in the arena. Under this circumstance it is considered reasonable to expect annual lease revenue of $40,000 per suite, including tickets to some but not all arena events, less 30 percent of gross suite rentals to cover the cost of marketing and ticket provision.

This pricing level represents a reduction from the higher levels projected in the 1985 report and reflects the inclusion of recent comparable leasing programs as well as new information regarding skyboxes being developed at both Candlestick Park and the Oakland Coliseum. Recognizing that the latter are stadium skyboxes and will be oriented to baseball and football, this will still represent additional competition for what is largely a pool of corporate dollars from Bay Area firms. Both of these

skybox programs will occur prior to any suite leasing program for a San Jose arena. Skybox lease rates were not available either from the Oakland Coliseum or the Oakland A's team, but discussions indicate a total of approximately 50 skyboxes will be built (half this year, half next). A second phase at Candlestick Park will provide 20 boxes accommodating 18 to 20 seats for 49er football at lease rates of $52,000-64,000 including tickets, with prices varying by location within the stadium.

The Bay Area remains an untested market for arena suites. While some facilities in the eastern U.S. have achieved significantly higher prices than those projected in this analysis, these have been almost exclusively in markets such as the New York metropolitan area (Brendan Byrne arena in New Jersey) and in Hartford where the Whalers' hockey team successfully leased a second phase of 19 suites in 1985 at an average of $55,000 including tickets. Closer to home, the permanent structure for the ARCO arena is just now beginning site preparation. The owners have indicated a marketing program for 24 suites, each with 20 seats, which will be priced at $50,000. However, none have yet been sold at those prices as marketing has not begun.

A particular area of concern has been the potential impact of the 1986 federal tax law on the marketability of luxury suites. This concern arises from the limitation placed by the law on deductability of private event seating used for entertainment purposes. Under the current provisions, deductability for lease payments would be phased out over a three year period, with 100 percent write-off allowed in 1986, 67 percent in 1987, 33 percent in 1988, and none thereafter. Purchase of tickets to events will be allowed an 80 percent deductability as a business expense when used for legitimate business entertainment.

ERA has initiated discussions with representatives of arenas marketing suites in various cities around the country and has reviewed published sources on the topic. It is our conclusion that while the elimination of deductability is likely to prolong the marketing process, it is not expected to occasion more severe impacts. For example, the Seattle

Seahawks began marketing a program of 48 new skyboxes at the Kingdome during the latter half of December, 1986, at prices ranging from $55,000 to $80,000. By mid-February, 38 had been leased, and there had been little or no market resistance relating to change in deductability.

It should be remembered that the tax law was written in such a way as to indicate intention and to establish a distinct change in philosophy. It remains for the Internal Revenue Service to interpret and provide specific mechanisms for implementation and enforcement, and it is the opinion of many knowledgeable tax experts that additional legislation can be expected in 1987 and 1988 further refining the provisions of the 1986 act.

Display Advertising

Display advertising from video display panels, scoreboard, dasher boards, concourse areas, and outdoor marquees can provide additional facility revenue. The size of the revenue stream varies significantly among existing facilities depending on the degree to which sports franchises may participate in receipts, or on whether or not advertisers contribute to the construction and installation cost for the more sophisticated media such as electronic scoreboards.

Recent annual revenues from this source have ranged from $185,000 at the Thomas & Mack Center in Las Vegas to $600,000 at the Houston Summit. During the last couple of years, as major league sports franchises have re-negotiated leases with home arenas, it has become more common for most or all advertising revenue to go to the team, reducing the building's share to fractions of former levels. In the case of the Oakland Coliseum Arena, the NBA team formerly did not share in advertising proceeds, but in renegotiating their lease in 1986, the terms of the new agreement allocate all revenues from this source to the team.

As a result of these recent changes in practice, this analysis shows no revenue to the facility under the scenario which includes NBA basketball in the San Jose arena. Given the lower amounts experienced recently in

other arenas and the increasing competition for display advertising dollars with the new San Jose State Events Center and the Shoreline Amphitheater, this analysis projects annual revenue to the facility of $250,000 without NBA basketball.

SUMMARY OF OPERATING REVENUE

The projected utilization for the San Jose arena is shown in Tables IV-1 and IV-2, indicating specific use and revenue characteristics both with and without an NBA team. Average attendance and ticket prices have been determined for specific event types, drawing from ERA's extensive series of promoter interviews conducted during the course of this analysis, as well as from the experience of other facilities. Per capita expenditures have been developed which reflect typical levels achieved in market area buildings.

These two tables summarize event related revenue from rentals, concessions, and parking for a downtown arena and for the North Zanker site both with and without NBA. Table IV-1 indicates event revenue with NBA from these three sources of $4,445,500 at the North Zanker site, and $$3,712,500 at a downtown site. Without NBA, event-related revenues total $4,134,100 at North Zanker and $3,445,600 downtown. The difference of approximately $700,000 annually between the two locations reflects the significantly smaller number of on-site parking spaces for the downtown site. The operating statements appearing in Tables IV-3 and IV-4 add revenue from suite rentals and display advertising for each alternative when comparing total earned revenues against annual operating costs.

OPERATING EXPENSES

Annual operating expenses have been projected for a stabilized year of operation for the San Jose arena and are not expected to differ according to site. These line items are summarized in Tables IV-3 and IV-4, as some categories differ according to the with and without NBA scenarios, reflecting the higher costs associated with more event days.

Table IV-1

ARENA EVENTS SCHEDULE
(INCLUDING NBA)

Event Type	Event Days	Avg. Attend. (000)	Total Attend. (000)	Avg. Ticket Price	Admis. Revenue ($000)	Rental Income ($000) 1/	Per Cap Conc. Exp. 2/	Conc. Sales ($000)	Conc. Income ($000) 3/	No. Cars (000) 4/	Parking Revenue ($000) 5/	Parking Income ($000) 6/	Total Event Income ($000)
Professional Sports													
NBA Basketball	41	12	492	$12	$5,904	$183.1	$3.00	$1,476.0	$395.9	177.1	$531.4	$104.5	$683.5
NBA Exhibition	2	12	24	$12	$288	$18.7	$3.00	$72.0	$14.4	8.6	$25.9	$10.3	$43.4
NHL Exhibition	2	11	22	$14	$308	$37.0	$3.00	$66.0	$26.4	7.9	$23.8	$19.0	$82.4
MISL Exhibition	2	8	16	$12	$192	$23.0	$2.00	$32.0	$12.8	5.8	$17.3	$13.8	$49.7
Boxing	8	7	56	$20	$1,120	$134.4	$3.00	$168.0	$67.2	20.2	$60.5	$48.4	$250.0
Wrestling	8	12	96	$12	$1,152	$138.2	$3.00	$288.0	$115.2	34.6	$103.7	$82.9	$336.4
Subtotal	63	11.2	706	$12.70	$8,964	$534.4	$2.98	$2,102.0	$631.9	254.2	$762.5	$279.0	$1,445.3
College Sports													
Basketball Games	4	8	32	$6	$192	$28.8	$2.00	$64.0	$25.6	11.5	$34.6	$27.6	$82.0
Other Sports													
HS B-ball Tourn.	4	4	16	$3	$48	$7.2	$2.00	$32.0	$12.8	5.8	$17.3	$13.8	$33.8
Tennis	4	8	32	$7	$224	$33.6	$2.25	$72.0	$28.8	11.5	$34.6	$27.6	$90.0
V-ball/Gymnastics	2	7	14	$5	$70	$10.5	$2.50	$35.0	$14.0	5.0	$15.1	$12.1	$36.6
Special Boxing	2	8	16	$6	$96	$14.4	$2.00	$32.0	$12.8	5.8	$17.3	$13.8	$41.0
Miscellaneous	2	10	20	$10	$200	$30.0	$2.00	$40.0	$16.0	7.2	$21.6	$17.3	$63.3
Subtotal	14	7.0	98	$6.51	$638	$95.7	$2.15	$211.0	$84.4	35.3	$105.8	$84.7	$264.8
Total Sports	81	10.3	836	$11.72	$9,794	$658.9	$2.84	$2,377.0	$741.9	301.0	$902.9	$391.3	$1,792.1
Family Shows													
Globetrotters	1	15	15	$9	$135	$13.5	$2.00	$30.0	$12.0	3.9	$11.6	$9.3	$34.8
Circus	4	14	56	$8	$448	$44.8	$1.75	$98.0	$29.4	14.4	$43.2	$34.6	$108.8
Ice Shows	10	12	120	$8	$960	$96.0	$1.25	$150.0	$60.0	30.9	$92.6	$74.1	$230.1
Sesame St. Live	5	10	50	7	$350	$35.0	$1.25	$62.5	$25.0	12.9	$38.6	$30.9	$90.9
4x4/Tractor Pulls	6	13	78	$12	$936	$112.3	$3.00	$234.0	$93.6	20.1	$60.2	$48.1	$254.1
Rodeo	3	10	30	$7	$210	$31.5	$2.50	$75.0	$30.0	7.7	$23.1	$18.5	$80.0
Lippizan Stallions	1	9	9	$9	$81	$12.2	$1.50	$13.5	$5.4	2.3	$6.9	$5.6	$23.1
Mudbogs	3	8	24	$8	$192	$28.8	$3.00	$72.0	$28.8	6.2	$18.5	$14.8	$72.4
Motorcycle Sports	7	16	112	$12	$1,344	$201.6	$2.50	$280.0	$112.0	28.8	$86.4	$69.1	$382.7
Subtotal	40	12.4	494	$9.43	$4,656	$575.7	$2.05	$1,015.0	$396.2	127.0	$381.1	$304.9	$1,276.7
Concerts													
Subtotal	20	14	280	$14	$3,920	$509.6	$7.00	$1,960.0	$372.4	100.8	$302.4	$241.9	$1,123.9
Community/Convention													
Religious Meetings	9	12	108	$0	$0	$36.0	$1.00	$108.0	$43.2	38.9	$116.6	$93.3	$172.5
Special Events	2	2	4	$0	$0	$8.0	$0.00	$0.0	$0.0	1.4	$4.3	$3.5	$11.5
Miscellaneous	3	8	24	$8	$192	$28.8	$2.00	$48.0	$19.2	8.6	$25.9	$20.7	$68.7
Subtotal	14	9.71	136	$1.41	$192	$72.8	$1.15	$156.0	$62.4	49.0	$146.9	$117.5	$252.7
TOTAL EVENTS-WITH NBA													
North Zanker Site	155	11.3	1746	$10.63	$18,562	$1,817.0	$3.15	$5,508.0	$1,572.9	577.7	$1,733.2	$1,055.6	$4,445.5
Downtown Site	155	11.3	1746	$10.63	$18,562	$1,817.0	$3.15	$5,508.0	$1,572.9	186.0	$558.0	$322.6	$3,712.5

Table IV-1

ARENA EVENTS SCHEDULE
(INCLUDING NBA)

FOOTNOTES

1/ At 15 percent of admission revenue for all events except 13 percent for concerts; 12 percent for non-NBA professional sports and tractor pulls; 10 percent for Globetrotters, circus, ice shows and Sesame Street Live; a flat daily rate of $4000 for religious meetings and special events; and a negotiated agreement with the NBA team.

2/ Refers to expenditures on food and beverage concessions for all events except concerts when refers to expenditures on both food and beverage and merchandise concession sales.

3/ At 40 percent of concession sales for all events except NBA Basketball and Exhibition as shown in Appendix A, concerts at 40 percent of F&B and 10 percent of merchandise sales, and circuses at 30 percent of concession sales.

4/ At 2.5 persons per car for all events except family shows at 3.5; assumes 90 percent arrive by car and park on-site at North Zanker location but only 1,200 cars can park on-site per event day at downtown location.

5/ At $3.00 per car parked on-site.

6/ At 80 percent of parking revenue (assumes remaining 20 percent of revenues covers operating costs) for all events except NBA Basketball and Exhibitions as shown in Appendix A at North Zanker location. Limited to 80 percent of parking revenue for 1,200 on-site cars per event day for all non-NBA event days at downtown location.

Table IV-2

ARENA EVENTS SCHEDULE
(EXCLUDING NBA)

Event Type	Event Days	Avg. Attend. (000)	Total Attend. (000)	Avg. Ticket Price	Admis. Revenue ($000)	Rental Income ($000)[1]	Per Cap Conc. Exp.[2]	Conc. Sales ($000)	Conc. Income ($000)[3]	No. Cars (000)[4]	Parking Revenue ($000)[5]	Parking Income ($000)[6]	Total Event Income ($000)
Professional Sports													
NBA Exhibition	2	12	24	$12	$288	$28.8	$3.00	$72.0	$28.8	8.6	$25.9	$20.7	$78.3
NHL Exhibition	2	11	22	$14	$308	$37.0	$3.00	$66.0	$26.4	7.9	$23.8	$19.0	$82.4
MISL Exhibition	2	8	16	$12	$192	$23.0	$2.00	$32.0	$12.8	5.8	$17.3	$13.8	$49.7
Boxing	8	7	56	$20	$1,120	$134.4	$3.00	$168.0	$67.2	20.2	$60.5	$48.4	$250.0
Wrestling	8	12	96	$12	$1,152	$138.2	$3.00	$288.0	$115.2	34.6	$103.7	$82.9	$336.4
Subtotal	22	9.7	214	$14.30	$3,060	$361.4	$2.93	$626.0	$250.4	77.0	$231.1	$184.9	$796.7
College Sports													
Basketball Games	4	8	32	$6	$192	$28.8	$2.00	$64.0	$25.6	11.5	$34.6	$27.6	$82.0
Other Sports													
HS B-ball Tourn.	4	4	16	$3	$48	$7.2	$2.00	$32.0	$12.8	5.8	$17.3	$13.8	$33.8
Tennis	4	8	32	$7	$224	$33.6	$2.25	$72.0	$28.8	11.5	$34.6	$27.6	$90.0
V-ball/Gymnastics	2	7	14	$5	$70	$10.5	$2.50	$35.0	$14.0	5.0	$15.1	$12.1	$36.6
Special Boxing	2	8	16	$6	$96	$14.4	$2.00	$32.0	$12.8	5.8	$17.3	$13.8	$41.0
Miscellaneous	2	10	20	$10	$200	$30.0	$2.00	$40.0	$16.0	7.2	$21.6	$17.3	$63.3
Subtotal	14	7.0	98	$6.51	$638	$95.7	$2.15	$211.0	$84.4	35.3	$105.8	$84.7	$264.8
Total Sports	40	8.6	344	$11.31	$3,890	$485.9	$2.62	$901.0	$360.4	123.8	$371.5	$297.2	$1,143.6
Family Shows													
Globetrotters	1	15	15	$9	$135	$13.5	$2.00	$30.0	$12.0	3.9	$11.6	$9.3	$34.8
Circus	4	14	56	$8	$448	$44.8	$1.75	$98.0	$29.4	14.4	$43.2	$34.6	$108.8
Ice Shows	10	12	120	$8	$960	$96.0	$1.25	$150.0	$60.0	30.9	$92.6	$74.1	$230.1
Sesame St. Live	5	10	50	7	$350	$35.0	$1.25	$62.5	$25.0	12.9	$38.6	$30.9	$90.9
4x4/Tractor Pulls	6	13	78	$12	$936	$112.3	$3.00	$234.0	$93.6	20.1	$60.2	$48.1	$254.1
Rodeo	3	10	30	$7	$210	$31.5	$2.50	$75.0	$30.0	7.7	$23.1	$18.5	$80.0
Lippizan Stallions	1	9	9	$9	$81	$12.2	$1.50	$13.5	$5.4	2.3	$6.9	$5.6	$23.1
Mudbogs	3	8	24	$8	$192	$28.8	$3.00	$72.0	$28.8	6.2	$18.5	$14.8	$72.4
Motorcycle Sports	7	16	112	$12	$1,344	$201.6	$2.50	$280.0	$112.0	28.8	$86.4	$69.1	$382.7
Subtotal	40	12.4	494	$9.43	$4,656	$575.7	$2.05	$1,015.0	$396.2	127.0	$381.1	$304.9	$1,276.7
Concerts													
Subtotal	26	14	364	$14	$5,096	$662.5	$7.00	$2,548.0	$484.1	131.0	$393.1	$314.5	$1,461.1
Community/Convention													
Religious Meetings	9	12	108	$0	$0	$36.0	$1.00	$108.0	$43.2	38.9	$116.6	$93.3	$172.5
Special Events	2	2	4	$0	$0	$8.0	$0.00	$0.0	$0.0	1.4	$4.3	$3.5	$11.5
Miscellaneous	3	8	24	$8	$192	$28.8	$2.00	$48.0	$19.2	8.6	$25.9	$20.7	$68.7
Subtotal	14	9.71	136	$1.41	$192	$72.8	$1.15	$156.0	$62.4	49.0	$146.9	$117.5	$252.7
TOTAL EVENTS-WITHOUT NBA													
North Zanker Site	120	11.2	1338	$10.34	$13,834	$1,796.9	$3.45	$4,620.0	$1,303.1	430.9	$1,292.6	$1,034.1	$4,134.1
Downtown Site	120	11.2	1338	$10.34	$13,834	$1,796.9	$3.45	$4,620.0	$1,303.1	144.0	$432.0	$345.6	$3,445.6

Table IV-2

ARENA EVENTS SCHEDULE
(EXCLUDING NBA)

FOOTNOTES

1/ At 15 percent of admission revenue for all events except 13 percent for concerts; 12 percent for non-NBA professional sports and tractor pulls; 10 percent for NBA Exhibitions, Globetrotters, circus, ice shows and Sesame Street Live; and a flat daily rate of $4000 for religious meetings and special events.

2/ Refers to expenditures on food and beverage concessions for all events except concerts when refers to expenditures on both food and beverage and merchandise concession sales.

3/ At 40 percent of concession sales for all events except concerts at 40 percent of F&B and 10 percent of merchandise sales, and circuses at 30 percent of concession sales.

4/ At 2.5 persons per car for all events except family shows at 3.5; assumes 90 percent arrive by car and park on-site at North Zanker location but only 1,200 cars can park on-site per event day at downtown location.

5/ At $3.00 per car parked on-site.

6/ At 80 percent of parking revenue (assumes remaining 20 percent of revenue covers operating costs) for all events at North Zanker location. Limited to 80 percent of parking revenue for 1,200 on-site cars per event day at downtown location.

Table IV-3

SUMMARY OF ANNUAL OPERATING RESULTS
(With NBA)

	Downtown	North Zanker
Revenues		
Rentals	$1,817.0	$1,817.0
Concessions	1,572.9	1,572.9
Parking	322.6	1,055.6
Advertising	0	0
Suite Rentals 1/	560.0	560.0
Total	$4,272.5	$5,005.5
Expenses		
Personnel	$ 900.0	$ 900.0
Utilities	450.0	450.0
Maintenance, Materials and Supplies	450.0	450.0
Insurance	200.0	200.0
Advertising and Promotion	150.0	150.0
Contract Services and Professional Fees	175.0	175.0
Other/Miscellaneous	50.0	50.0
Total	$2,375.0	$2,375.0
Net Operating Income	$1,897.5	$2,630.5

1/Assumes 20 suites at $40,000 annual lease fee including tickets, less 30 percent for cost of marketing, tickets, etc.

Source: Economics Research Associates

Table IV-4

SUMMARY OF ANNUAL OPERATING RESULTS
(Without NBA)

	Downtown	North Zanker
Revenues		
Rentals	$1,796.9	$1,796.9
Concessions	1,303.1	1,303.1
Parking	345.6	1,034.1
Advertising	250.0	250.0
Suite Rentals	0	0
Total	$3,695.6	$4,384.1
Expenses		
Personnel	$ 825.0	$ 825.0
Utilities	400.0	400.0
Maintenance, Materials and Supplies	400.0	400.0
Insurance	200.0	200.0
Advertising and Promotion	150.0	150.0
Contract Services and Professional Fees	150.0	150.0
Other/Miscellaneous	50.0	50.0
Total	$2,175.0	$2,175.0
Net Operating Income	$1,520.6	$2,209.1

Source: Economics Research Associates

Personnel costs including wages, salaries, and fringe are typically the largest single expense line commonly accounting for 30 to 45 percent of operating budgets depending on staff size and functions performed in-house versus those contracted out. A staffing approach has been assumed here which would provide for a fairly lean full time administrative staff and house crew. This staff is augmented by temporary and part time event staffing in keeping with the needs of individual events, the cost for which is normally passed through to the event promoter. A total of $900,000 has been allocated for annual personnel costs with NBA, and $825,000 without.

Costs for utilities are subject to wide variation among buildings, depending on climatic differences, costs for energy, the specific efficiencies of building design, and the potential for discounted rates through governmental supply. In the absence of specific building design, this analysis assumes an annual cost of $450,000 under the with NBA scenario, and $400,000 without, and is intended to include costs for energy, water, sewer, and telephone.

Costs for maintenance and for materials and supplies have been combined into a single category and have been estimated at $450,000 annually with NBA and $400,000 without. This reflects routine functions and assumes that extraordinary event related costs will be passed through to the event.

Annual cost for liability insurance has been one of the most volatile expense lines for buildings in all parts of the country during the last two years. Many facilities have experienced premium increases of 100 to 200 percent. While this process has more or less levelled off by 1987, an annual allocation of $200,000 has been projected for the San Jose arena.

Costs associated with promotion, as well as advertising and publicity appear to show the widest variation among buildings of all expense categories. In those cities where arenas function as elements of larger complexes of public assembly facilities, costs for this function are frequently shared on a cooperative basis, reducing the specific costs to the individual building. In other cases, where facilities vigorously promote

and co-promote events, it is necessary to allocate greater resources to this end. A total of $150,000 has been allocated for this purpose in San Jose.

Contract services and professional fees can cover a wide range of costs. An annual amount which is realistic for a San Jose arena has been shown at $175,000. Other miscellaneous unallocated expenses of $50,000 are common at similar facilities and are assumed to apply in this case as well.

NET OPERATING INCOME

The difference between total operating revenue and operating expenses is net income available for debt service. Tables IV-3 and IV-4 display net operating income both with and without NBA for both downtown and North Zanker sites.

As shown, operating revenue approximates $4.3 million with NBA at the downtown site and $5.0 million at the North Zanker site. Without NBA, total operating revenue drops to $3.7 million and $4.4 million respectively.

Operating expenses total $2.4 million for either site with NBA basketball, and $2.2 million without it. Since utilization does not differ between the two site areas, and since a similar building design is being assumed, operating costs should not differ.

Resulting net operating income as shown in Tables IV-3 and IV-4 then reaches $1.9 million with NBA at the downtown site and $2.6 million at North Zanker. Without the basketball franchise playing home games in San Jose, net operating income drops to $1.5 million and $2.2 million respectively.

OTHER POTENTIAL SOURCES OF OPERATING INCOME

Two other sources of potential operating revenue have been discussed during the earlier study process and are briefly addressed here. These are revenues from admissions taxes, and those which might be generated from operation of an on-site restaurant within the arena. No revenue from either of these sources has been included in the foregoing financial analysis.

Admissions Tax

Public agencies have often imposed admission taxes on ticket sales at public assembly facilities as a mechanism for generating revenue to offset either capital or operating costs. The appropriateness of such a tax is based on a direct linkage of assessment with facility use, thereby placing the burden of payment on the facility's users. During the 1984/1985 study process, ERA prepared an analysis of admission tax revenues in response to requests from Task Force members. It is the intent of this discussion to present updated conclusions regarding this potential revenue source.

It has been the common experience that taxes of five percent of more are most often levied by states rather than local jurisdictions, or on facilities having little or no direct market competition. The effect has been that facilities which compete with each other, if taxed at all, tend to be taxed at the same rates, acknowledging the competitive disadvantage which can otherwise result. This disadvantage occurs largely because of the known sensitivity of event promoters to costs and prices relating to all aspects of the event.

The two facilities most directly competitive with the proposed San Jose arena are the Cow Palace in Daly City and the Oakland Coliseum arena. Given the Oakland facility's addition of seats last year, this facility is somewhat more competitive with a new San Jose arena than had been the case previously. While the cities of Oakland and Daly City have both, at different times, considered imposing surcharges on either ticket sales or parking at these facilities, none has been implemented to date.

Given the increased competitiveness of the Bay Area marketplace, particularly with the introduction of the Shoreline Amphitheater in 1986, and the San Jose State Events Center which will open in early 1989, ERA is less inclined to recommend consideration of an admission tax, particularly in the early years of operation while the facility is becoming established in the market. If at a later time consideration were given to such a tax, a percentage tax rather than a flat rate assessment would have the advantage

of assuring that the tax is proportional to the ticket price. A flat tax rate tax can place a disproportionate burden on those events with lower ticket prices. If at a future time a three percent tax were assessed on admissions at the levels projected earlier in this section, this would produce $556,860 with NBA and $415,020 without NBA.

Restaurant

Some arenas, such as the Cow Palace, have included restaurant facilities within the complex as a means of providing on site food and beverage opportunities in addition to the typical "fast food" characteristic of concession stands. Limited investigation of the experience of other facilities indicates varying results. Interviews with arena managers indicated that while such facilities can potentially yield income to the facility, in many cases the results are marginal. One facility acknowledged gross sales of $500,000 per year in a 150-seat facility open every day and marketing a regular lunch trade averaging 130 covers per day. Other facility managers indicated that the restaurant or club serves primarily as an amenity for the building and not as a significant profit center.

Success for such an operation is clearly a function both of facility location (i.e., is there sufficient food and beverage demand in the area immediately surrounding the area) and of operating policy in terms of how it is marketed. If the arena were to be developed at the North Zanker site, there is little or no development around the arena which could be expected to generate demand for arena restaurant seats in non-event periods. If it were developed at a downtown site where it would have the potential for drawing from surrounding daytime population, patronage would be more likely to reach viable levels. However, a principal rationale for building an arena convenient to the downtown area is its function as an activity generator from which surrounding downtown businesses can benefit. To provide a restaurant outlet within the arena which would effectively compete with area restaurants would seem to defeat this purpose.

Section V

THE PROPOSED ARENA AS A GENERATOR OF ECONOMIC IMPACTS

An issue which arises in assessing alternative sites for potential arena development concerns the levels of economic impacts which can reasonably be expected to result from arena operation over the long term. This is of particular importance in San Jose, as the three potential sites differ significantly in proximity to San Jose commercial development. While Site A appears to offer the opportunity to capture any economic benefits resulting from arena operation within the city's evolving downtown commercial concentration, Site B is more peripheral to downtown activity centers. The North Zanker site is even more removed as it lies on the periphery of the northern area of the city. If significant economic spin-off should occur from arena operation at the North Zanker site, concern has been expressed that the surrounding communities of Milpitas and Santa Clara might, in fact, siphon much of the benefit because of the site's greater proximity to commercial development within those cities, rather than retaining those benefits within the City of San Jose.

It has been the consultants' experience that among the various types of public assembly facilities (including convention centers, performing arts facilities, stadiums, and sports arenas) that all such facilities generate some level of economic activity in the community. However, arenas typically generate less significant levels of economic impact from ongoing operation. This is largely because arenas attract primarily regional and local area residents rather than notable numbers of visitors from outside the community. In addition, arena attendees typically are not as inclined to patronize surrounding retail and restaurant establishments in significant numbers before and after attending events in most cities as their pattern of attendance is different. They are most likely to drive to the event, park as close as possible to the facility's entrance, and confine food and beverage purchases to on site concessions.

It has not been within the scope of this assignment to provide a quantitative analysis of specific direct and induced impacts from arena development. Rather it is the intention of this discussion to review the nature of anticipated benefits likely to result from arena development in San Jose based on the experience of other relevant cities. This is provided through a series of case studies where ERA has completed interviews with knowledgeable spokespersons in Dallas, Indianapolis, and Houston. These cities were selected for investigation as each has a high quality, well utilized arena which is located either in a downtown location or in a major urban concentration where perceptible benefits from the arena could be captured. This task also included review of a research program completed in Seattle which provided an empirical analysis of the impacts of the Kingdome following its completion. In addition, ERA completed detailed interviews with arena managers in twelve cities, addressing their perceptions of impacts generated through the operation of their facilities from the standpoint of recognizable patron and user expenditures in the surrounding community.

EXPERIENCE IN OTHER CITIES

Dallas

The Reunion Arena opened in April, 1980, on a 6.2 acre site within the 50-acre Reunion project area at the western edge of downtown Dallas. The arena is a well utilized, high quality facility which includes 15,500 permanent seats and up to 19,000 seats for center stage concerts. It does not provide luxury suites, although it is the home for the NBA Mavericks and the MISL Sidekicks soccer franchise. According to the director of the city's Convention Services Department which operates the arena, the City declined to include special seating when the building was planned as a policy decision not to provide for priority or priviledged seating areas. This was felt to be in keeping with the City's principal objective of building the arena to provide a focal point in the Reunion area which could function as

an activity generator and an enhancement to the quality of life in the Dallas community by offering a variety of sports and entertainment events.

The site is approximately a ten minute walk from the Dallas Convention Center complex, and it sits across a 10-acre park from the 1,000 room Hyatt Regency Hotel and Reunion theme tower. It is one block west of the Union Station specialty restaurant and office complex which was renovated by the City of Dallas at the time of the construction of the arena. An office complex of two 28-story towers has long been planned for a site adjacent to the arena on the west side of what has consisted of surface parking serving the arena, necessitating the city's replacement of parking in structures to the south. The first phase of parking structure construction is just now being completed, although the timing for the office towers remains uncertain.

Discussions with City representatives responsible for overseeing the operation of the Union Station complex indicate that the project has been unsuccessful as a restaurant and office concentration since its completion despite the activity generated at the adjacent arena. This situation is expected to be improved upon completion of the DART transit system which will utilize the Union Station as a transit hub but which has been long delayed in implementation. While there have been varying levels of patronage of the restaurant and bar facilities in the complex from arena attendees, support from this source is intermittent and not of sufficient volume to support successful operations. The center is subsidized by the City and operates at an annual loss of between $200,000-300,000 per year.

While arenas do not typically generate strong levels of demand for lodging, discussions with the management of the Hyatt Regency adjacent to the Reunion Arena have indicated some measurable demand. Lodging usage attributable to the arena averages approximately 7,000 roomnights annually. Of this total, approximately 5,000 represent lodging needs of sports teams and entertainment acts appearing at the arena, and about 2,000 roomnights reflect use by patrons attending events. The total of 7,000 annual

roomnights reflects a very nominal level of demand given the hotel's convenient location, as that is sufficient to support 27 rooms at 70 percent annual occupancy.

Indianapolis

Market Square Arena was built in 1974 at the eastern edge of Indianapolis' downtown area. It occupies the air rights over a five level parking garage and is adjacent to the renovated City Market, a festival marketplace which sits at the eastern periphery of Market Street, one of the city's principal commercial corridors. The arena is less than a mile from the recently completed 63,000-seat Hoosierdome Stadium and Indianapolis Convention Center which together anchor the southwestern end of downtown.

The arena includes 15,900 permanent seats and, with movable seating, accommodates 16,300 for hockey, 17,700 for basketball, and a maximum of 18,200 for concerts. It is home court to the NBA Indiana Pacers and accommodates a strong volume of concerts, family shows, and other sports and entertainment events. It is privately operated by Arena Management, Inc., under contract to the City of Indianapolis Capital Improvements Board and does not include private suites.

While downtown Indianapolis has experienced a notable recent increase in private sector investment and gives evidence of strong activity levels and vitality, it is difficult to credit the arena with spawning much of this growth. While Market Square Associates (partners in the original construction of the arena) have developed two large scale office complexes in adjacent blocks, discussions with the developer have indicated no perceived benefits to office leasing from its location near the arena. They do, however, cite the benefit of the strong identity associated with the Market Square area and the public's familiarity with that eastern end of downtown from attending events in the arena. The strongest recent growth in commercial development, however, has occurred largely at the western end of the corridor, near the newly opened Hoosierdome and expanded convention center complex. More significant new office and hotel development has been

evolving here, benefitting both from the increased visitor activity at the Convention Center and from the "ego boost" following attraction of the National Football League franchise Colts, when the team moved from Baltimore to Indianapolis.

There are conflicting indications regarding restaurant and retail spending in the area surrounding the arena. While the City Market is a successful festival marketplace, its patronage is almost exclusively from the nearby daytime commercial concentration. In fact, the City Market does not remain open past 6:00 in the evening when much of the arena's activity occurs. There have been indications of restaurant use in establishments between the arena and the downtown area's central square, however. While there is on-site parking for 1,300 cars at the arena, a large proportion of arena attendees must park in other lots and structures and walk to the arena, similar to the situation with the downtown San Jose sites. This may, in fact, encourage patronage of nearby restaurants, as attendees do not then simply drive into the arena parking facilities and funnel straight to the seating area. However, much of the available surface parking which serves the Market Square Arena is located behind the facility, and there has been no perceptible growth of commercial development in that direction. In fact, to the immediate east, north, and south of the arena, much of the area remains underutilized and blighted.

Houston

The Houston Summit occupies a seven acre site within the Greenway Plaza mixed use development located about five miles southwest of downtown Houston. The 127-acre complex of office, commercial and residential uses enjoys excellent visibility and access from the Southwest Freeway (U.S. 59). There are a total of 6,500 structured parking spaces which serve the hotel and office structures as well as the arena. Partially because of this joint use of parking, the Summit does not hold events during weekday hours but functions only during evening and weekend periods.

In addition to the arena, Greenway Plaza includes approximately six million square feet of office space, a 408-room hotel, a 100,000 square foot retail mall, two thirty-story residential condominiums containing a total of 400 units, the Houston Design Center, and the Houston City Club, a private tennis and health club.

The arena opened in 1975 and is owned by the City of Houston. It is operated by a private operating company, initially a division of Century Development, developer of the overall Greenway Plaza complex. The Summit provides a total of 15,030 permanent seats and can accommodate 17,100 for concerts, 16,750 for boxing and wrestling, 15,462 for basketball, and 15,750 for tennis events. There are 20 private suites, ten on each side of the arena at the upper level. The arena is home court to the NBA Houston Rockets.

Interviews with the developers of Greenway Plaza have indicated little quantifiable economic impact on the mixed use development from the operation of the Summit, although it was instrumental in helping to establish the identity of the Greenway Plaza complex. While there has been some roomnight benefit to the adjacent hotel, this has not been specifically tracked by hotel management. The developer indicates negligible spending benefits from arena attendance for concourse outlets. To some extent this is due to the design of the project which "buried" the retail largely below grade and does nothing to encourage a flow through the retail concourse by arena patrons. While the major restaurants are located at convenient entry points for Greenway Plaza as a whole, they are largely at the periphery and least convenient for arena attendees who park in the central parking structure and flow directly into the arena.

Seattle/King County

In general, the economic impacts which result from operation of a domed stadium are not comparable to those resulting from an arena. This is because stadiums accommodate different types of events, largely football and baseball, which are characterized by different patron expenditure patterns.

However, this discussion provides a brief review of some of the findings of a study which examines the economic impacts of Kingdome operations on the Seattle and King County economies. This has been included because it provides one of the few sources of information quantifying economic impact factors resulting from an extensive program of primary research, some of which can be applied to arena operations. This is viewed as useful in the context of this report because it provides an order-of-magnitude assessment of the relative level of economic benefits which can occur from attendance at some of the types of events which would occur in a San Jose arena. It is important to note that at the time of the study, such events as basketball were held at the Kingdome. In the interim, the Sonics have relocated their home schedule to the Coliseum at Seattle Center.

In 1968, the King County electorate approved a bond issue of $40 million to construct a domed stadium with the expectation that the facility would attract professional football and baseball franchises to the area. The 65,000 seat facility was completed in 1976, located at the southern edge of downtown Seattle. The site selection was highly controversial because it was feared that the Kingdome's construction and operation would alter the character of the surrounding areas and create massive traffic and parking problems. A study was conducted in 1979 to evaluate the economic impacts from construction and operation, as well as its impact on county residents and on its immediate surroundings.

Those aspects of the study that provide useful and appropriate information relative to potential arena development in San Jose have been identified and are discussed below.

- o While average per capita spending by attendees was highest for footbal and baseball games (which would not be held in an arena), expenditures at basketball games ranked third at $13.02 (1979 dollars). Of this roughly 60 percent represents expenditures for tickets, concessions, and parking. The remainder of approximately $5.20 represents expenditures for other goods and services in the surrounding community.

- Of total basketball attendance at the Kingdome, 29 percent was from out-of-county residents. Out-of-county residents' average per capita expenditures were roughly 30 percent higher than those of local residents.
- Spending associated with basketball represented 16 percent of total Kingdome operating impact in 1979.
- The study noted perceptions of a significant amenity value associated with the Kingdome. When surveyed:
    - 79 percent of households reported attending at least one event;
    - 57 percent stated that the facility had contributed to making King County a more attractive place to live;
    - 57 percent of respondents felt the Kingdome was worth what was paid for it and 20 percent thought it was worth more.
- The study included a survey of managers of businesses located in the area surrounding the Kingdome and found the following perceived impacts:
    - 56 percent stated that the facility had no effect on them;
    - 20 percent indicated beneficial effects (these were strongest from the retail sector);
    - 24 percent noted negative effects (primarily related to parking and traffic problems).

  In general, the Kingdome had both fewer positive and negative impacts in the surrounding area than had been originally predicted.

- It is significant that the survey of event attendees found that 16 percent have increased their shopping activity in the surrounding area on non-event days as a result of attending Kingdome events.

- The study found that there had been no change in the character of the surrounding area as measured by the mix of business establishments. There was, however, an increase in new businesses in the area and a decrease in vacancies.

IMPLICATIONS FOR ARENA DEVELOPMENT IN SAN JOSE

The foregoing review of the experience in other cities can be interpreted to provide various implications which may be useful in decisions regarding arena development in San Jose.

- While arenas do generate community economic impacts as a result of ongoing operation, the levels of benefit are less significant than those from convention centers and stadiums (which generate greater out of town visitation and larger per capita expenditures).

- Expenditures by attendees and arena tenants can be expected to generate some local area sales in retail, restaurant, and lodging facilities, as well as for transportation-related needs (such as gas, parking, etc.). While these expenditure levels are likely to add only a nominal increment to demand from other sources for these goods and services, they do tend to occur at off peak, less busy times.

- Based on Dallas' experience, lodging roomnight demand from arena operation would be drawn largely from visiting sports teams, bands, etc., rather than from arena attendees. Since the Hyatt Regency in Dallas is ideally located to capture the major share of such demand, it is likely that its share amounts to approximately half of citywide demand. It is probable that at

least an equivalent number of roomnights would be captured by other area hotels, probably at a somewhat lower rate given the Hyatt's positioning. If a similar total of 14,000 citywide roomnights were to occur in San Jose, this would produce $840,000 in lodging revenue at an average daily rate of $60, and hotel tax revenues to the City of $67,200 at an 8 percent rate.

- It has been the experience of other cities that new businesses can be attracted to areas surrounding arenas, but that sports facilities do not in themselves catalyze changes in the character of an area in terms of the mix of surrounding businesses.

- The Kingdome survey indicated the degree to which sports facilities can promote greater resident familiarity with the surrounding area, resulting in return visits to the area to patronize retail businesses.

- ERA's discussions with arena operators around the country indicate the likelihood of greater expenditure benefits occurring when arenas are developed in proximity to the more intensive development typical of downtown areas or major urban centers. Since the area around the downtown San Jose sites offers existing opportunities for more intensive land uses, the economic benefits of arena development are likely to be greater, and more concentrated, if the arena were developed at such a location rather than at the North Zanker site.

- Perhaps the most significant impacts resulting from arena development are those which are difficult to quantify. Among these are the facility's role in generating activity and vitality in an area, largely during evenings and weekends. This can be particularly important in downtown areas as these are the two periods when activity from other sources is at its lowest level.

- Another important function served by operating arenas is their role in familiarizing residents with the vicinity as a result of

attending events. Because arena events are likely to attract people to the area who do not visit for other reasons, the potential exists to expose new segments of the community to San Jose's emerging downtown core if the arena were developed there.

Section VI

IMPLICATIONS OF THE 1986 FEDERAL TAX ACT ON FINANCING OPPORTUNITIES

The Tax Reform Act of 1986 brought sweeping changes in the financing of public facilities. One of the goals of tax reform was to eliminate indirect federal subsidies of public facilities which primarily benefit a private individual or company. The act specifically repealed the tax-exempt status of debt issues for sports facilities, convention centers and selected other uses. This does not prevent the financing of such facilities as governmentally owned and operated facilities, however the amount of private use and financing support for the project are limited by complex test requirements, and a project would fail to establish eligibility for tax exempt status only if it failed both tests.

The Tax Reform Act of 1986 also restricted for the first time the use of redevelopment bonds and established designation criteria for areas currently not within a redevelopment area. The implications of this act on redevelopment financing sources for a new arena are significant.

The provisions of the Tax Reform Act and Conference Agreement are clearly subject to interpretation by the Treasury Department. Until advance rulings and test cases are decided, the full implications of the act cannot be determined. The following text relays ERA's current interpretation of the intentions of the act and are, therefore, subject to change. A final determination on each element of arena financing, construction and management must be made by the Redevelopment Agency in conjunction with its bond counsel.

In financing a facility such as the arena, the preferred financing tool is the Certificate of Participation. For all intents and purposes, a Certificate of Participation behaves as a bond issue and is defined as a bond issue in the tax act. General obligation bonds require two thirds

voter approval to be used, while revenue bonds link revenue and debt service.

GOVERNMENT BOND FINANCING

In order for a debt issue to be deemed a government bond and, therefore, tax-exempt, the act specifies "test" criteria in the use of and payment for public facilities. A brief summary of the major tests as they relate to the arena follows.

- o The Private Business Use Test restricts the amount of proceeds of issue which can be used directly or indirectly by all private entities to 10 percent. A private use results from any use not available on a public basis such as ownership, lease agreement or management contract.
- o The Related Private Use and Disproportionate Use Tests divides the 10 percent private use rule into related private use and unrestricted private use. The unrestricted private use of proceeds cannot exceed five percent of the issue. As unrestricted private use applies to areas used solely by the private entity such as adminsitrative offices and inventory storage areas.
- o The Private Security in Payment Test restricts the amount of annual direct or indirect payments by a private entity to 10 percent of the total debt service. Payments by private entities are viewed individually and not aggregated.

An important definition is that of a management contract. A contract is not a manangement contract, and, therefore, not subject to the 10 percent use and payment rules if it follows the following format.

- o The term of contract does not exceed three years with a two year option.
- o At least 50 percent of the compensation is on a periodic fixed fee basis.
- o No amount of compensation is based on a share of net profits.

Presumably, flexible compensation such as a per event fee or percentage of gross revenue can be made up to the annual fixed-fee amount.

There are several other provisions and definitions which apply to an arena financing scheme. However, these can be met primarily through a careful structuring and security of the debt issue. At this writing, ERA believes an arena financing program structured in the following way would be entitled to tax-exempt status.

- o An arena is financed with Certificates of Participation provided the concession areas constituted less than ten percent of the total debt issue. Furthermore, space used exclusively by the concessionaires (storage areas and back office area) did not exceed 5 percent of the total debt issue.

- o All facility rental fees and as many other fees as possible must be passed directly through the manager to the Redevelopment Agency or City General Fund. A percentage fee on concessions can be levied provided no individual concessionaire fees constititutes more than 10 percent of the debt service. Since concession fees typically comprise a significant percentage of arena revenues, two strategies may be employed to meet this criteria: 1) fragment concession operations until no individual concessionaire generates fees greater than 10 percent of debt service or 2) use private or non-tax exempt government funds to build the concessionarie elements of the arena.

- o An "operation" contract with a private entity can be undertaken provided it does not meet the definition of a management contract oultined above. All office space and other use by the operations contractor are not included in the 10 percent rules. All payments received by the contractor must be passed directly through to the governmental unit.

- o Any exclusive booking right agreement or long term lease agreement with a private entity is likely to constitute a private

use, and, therefore, included in the 10 percent use test and payments test. Further interpretation by the Treasury Department must be made to determine the implications on usage agreements.

The financing of an arena with governmental bond tax-exempt debt will be a complex and time consuming process. However, the rewards are significant. For example, a $40 million 20 year issue at the current tax-exempt rate of 6.75 percent requires annual debt payments of approximately $3.7 million. An identical taxable issue carrying a 9.0 percent interest rate requires annual debt payment of $4.4 million. Therefore, an annual savings of $700,000 per year can be realized by gaining tax-exempt status.

While the implications of the Tax Reform Act of 1986 on a new arena in San Jose could be significant, the sweeping provisions are subject to interpretation which renders a final determination currently impossible. All aspects of project financing, construction costs by element, management and concessionaire contracts, matching non tax-exempt funds and use agreements must be evaluated and pieced together into a total financing and management scheme prior to determining if the project can be financed with tax exempt bonds.